Postal Regulatory Commission
Submitted 5/6/2022 1:51:04 PM
Filing ID: 121689
Accepted 5/6/2022

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Market-Dominant Price Change	)))	Docket No. R2022-1

COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE
(May 6, 2022)

Pursuant to Order No. 6146, the Association for Postal Commerce ("PostCom") submits these comments on the United States Postal Service's Notice of Market-Dominant Price Change ("Notice"), filed on April 6, 2022 and scheduled to take effect on July 10, 2022. While the prices proposed by the Postal Service appear to comply with the limitations of the Commission's regulations, in that in each class, the Postal Service's pricing proposals produce increases that do not exceed the pricing authority for that class, a number of the Postal Service's proposal nevertheless raise issues of reasonableness and compliance with statutory objectives. In particular, because an objective of the Postal Accountability and Enhancement Act ("PAEA") is to improve the stability and predictability of postage rates, several features of the Postal Service's rate proposal require comment.

I. THE TIMING AND MAGNITUDE OF THE PROPOSED RATE INCREASE ARE INHERENTLY UNREASONABLE AND UNDERMINE RATE PREDICTABILITY AND STABILITY

The Postal Service provided notice of its intention to raise Market-Dominant rates on April 6 by approximately 6.5 percent, almost immediately upon confirmation of rate authority calculations in the Annual Compliance Determination. The notice was filed just over seven months after rates on Market Dominant rates increased by 6.8 percent on average. On the same day that the Postal Service filed notice of its planned rate change, President Biden signed the

Postal Service Reform Act of 2022 ("PSRA") into law. Among the consequences of the PSRA is that the Postal Service has been relieved of $57 billion in long-term liabilities, and from having to prefund a portion of its pension obligations. Over the next ten years, the Postal Service's expenses are expected to be reduced by $50 billion.

It is now evident that the Postal Service will use all available rate authority as soon as possible. To the extent that the Commission's enactment of the density and retiree adders were predicated upon the notion that the Governors of the Postal Service could be trusted to act judiciously, there is now ample empirical evidence that the Commission's naïve belief that the Governors would curb the monopolistic tendencies of postal management were misplaced.

In less than a year, the Postal Service, despite having unprecedented cash holdings and record operating revenues, is increasing rates at a faster rate than under the Postal Reorganization Act. Given its financial well-being, the pancaking of rate increases of more than 12% total is hardly reasonable and irreconcilable with the objective of creating predictability and stability in rates. 39 U.S.C. § 3622(b)(2). It is incumbent on the Commission to provide appropriate remedy. Because the Commission's regulations facially permit such increases, that remedy may require the Commission to revisit its ill-considered regulations. PostCom recommends that the Commission do so before the Governors have an opportunity to visit further damage on the Postal Service's customers.

Engaging in multiple price changes per year of greater than 6% each undermines the objective of providing price stability and predictability. PostCom's concern with this impact is not merely academic. Mailers attempting to develop advertising, print, and mail budgets are having a difficult enough time keeping up with inflationary pressures. Adding semiannual postal price increases in this environment raises the difficulty level even higher—especially when the magnitude of those increases is only known 90 days before implementation. And as each rate increase reduces the return on investment of mail campaigns, the costs of attempting to keep up with postal increases can outweigh the benefits of using mail as a communications channel.

The Postal Service's previous decision to adopt a practice of implementing annual price increases in January of each year was beneficial to mailers, especially when those increases were limited to CPI and could be predicted, at least at a class-average level, with some confidence. The reversal of course and current practice of semi-annual increases during a time of rapid inflation is a massive step backwards for the industry. The Postal Service should demonstrate that it truly values its customers and return to an annual price change schedule.

II. WORKSHARING

PostCom commends the Postal Service for increasing worksharing incentives in this notice including:

- Increased incentive to presort First-Class Mail to mixed AADC
- Increased incentive to presort First-Class Mail to 5-digit
- Improved incentives to dropship Marketing Mail 5-digit to the NDC and to the SCF
- Improved dropship incentives for saturation mail

These incentives reward mailer efforts to improve the efficiency of the system and should reduce USPS costs.

Despite these welcome developments, PostCom believes that opportunities exist to further improve pricing efficiency. As we noted in our comments on the FY2021 Annual Compliance Report, the Postal Service has taken a decidedly unbalanced approach to compliance with the Commission's passthrough bands. Many more workshare incentives were below the 85 percent floor than exceeded the 100 percent limit. Unfortunately, the Postal Service's pending rate change does not do enough to bring non-compliant workshare incentives closer to the 100 percent passthrough level that would represent efficient price signals. In some cases, in fact, the Postal Service has pushed discounts farther away from 100 percent passthroughs. For example, the Periodicals Machinable Nonautomation 3D/SCF Flats discounted ended FY 2021 with a passthrough of 101.9%. Rather than set the discount equal to avoided costs, the Postal Service reduced the discount so that the passthrough is now 86.5%—minimally compliant and significantly less efficient than it was before.

PostCom also notes that the Postal Service set new workshare discounts well below avoided costs. For instance, the new discount for High Density Plus Flats on 5-Digit (direct) containers passes through only 45.5% of avoided costs. Notice at 17-18. While recognizing that there may be valid reasons not to immediately set a new discount at a 100% passthrough level, PostCom recommends that the Commission closely monitor these passthroughs and assess them in the next ACR proceeding to ensure that such low passthroughs are justified.

As it is now readily apparent that the Postal Service will endeavor to achieve minimal levels of compliance, PostCom urges the Commission to consider additional inducements for the Postal Service to increase the efficiency of its price signals, including revising its rules to focus as much on passthroughs that are inefficiently low as on those that are inefficiently high.

III. MARKETING MAIL

As PostCom has noted in previous years, the Postal Service's proposed increase for Marketing Mail masks a considerable amount of variation in price adjustments for various categories. To some extent this variation is an inevitable consequence of the Postal Service having to comply with Commission directives regarding flats, and the non-compensatory status of some marketing mail categories. Nonetheless, some anomalous rate changes defy rational explanation.

In explaining its significant price increase on High Density Letters, a product with a cost coverage well above the class average, the Postal Service cites an "appropriate application of price cap authority to a mail product with stable or increasing volume." Notice at 12. The current rules allow the Postal Service to optimize revenue by applying rate authority based on demand characteristics. However, in this instance, the Postal Service is, in effect, punishing efforts by mail producers to improve efficiency.

The size of the increase on High Density letters is especially remarkable when compared with an outright price reduction for EDDM retail. As far as PostCom knows, the Postal Service considers EDDM retail to be price inelastic; thus, the price reduction will reduce revenues at a time when USPS appears eager to capture as much revenue as possible. Additionally, PostCom does not believe the reduction can be justified as an incentive to encourage more volume in this category. EDDM Retail is counterintuitive to today's multi-channel marketer and USPS recognition to channel diversity and integration. EDDM (both forms) is an introduction to direct mail and should be limited to a client as addressing, tracking, Informed Delivery, and targeting are vital to successful marketers. With that said, PostCom recognizes that EDDM retail provides minimal revenue and that the effect of the price reduction on the prices charged to other categories is minimal.

PostCom also questions the disparate treatment of DALs (public service messages) and DMLs (advertising). While included in its Notice, the Postal Service provides no explanation for why the DML rate is increasing by 14.3 percent, while the DAL rate is unchanged. Both types of pieces accompany High Density and Saturation Flats and Parcels and must comply with identical physical standards. Presumably DALs and DMLs have identical cost characteristics, thus the disparate rate treatment is confounding.

These year over year increases in DML rates have led many mailers to reduce offering them in some mailings and markets. With shared mailers already struggling to cover the high fixed costs of print and postage in some geographies or some off weeks of frequency, the lack of DML revenue has hastened the closing—and departure from the mail—of some shared mailings.

For the mailers that have used the cards, the Postal Service's unrelenting escalation of price increases seems to be related to its efforts to improve the competitive pricing and position of its own EDDM Retail products. As discussed above, such a focus makes no sense if the goal is to maximize postal revenues. Not only is this product not attractive to multichannel marketers, but it involves greater costs associated with providing service on the retail level. By contrast, with the DML, the commercial mailer is doing all of the sales – customer interaction, and the Service gets the benefit of larger revenues associated with the larger mailings. PostCom is concerned this pricing strategy is driven not by concerns about efficiency, but by internal competitive concerns of wanting to highlight the Postal Service's 'own' product.

In short, the difference in the DAL and DML price increases, in the absence of a cost justification, combined with the inexplicable 6.5% reduction in the Service's EDDM product, a product that competes in the same advertising marketplace as DMLs with advertising messages, suggests an improper motive by the USPS to create a greater demand or stimulate interest for its own product. This is not a legitimate basis for a price change. The PRC should disallow this 14% increase (on top of back-to-back increases of 20 to 25% in the past two price filings) and keep the price for the DML the same as the DAL.

IV. MAILERS DO NOT HAVE ADEQUATE NOTICE

The Postal Service's proposed rates will – absent an adverse finding by the Commission – take effect on July 10. By filing its Notice on April 6, the Postal Service has satisfied the 90-day notice requirement imposed by the Commission.

Commercial mailers, who will presumably have to comply with new rate and classification requirements on July 10, depend on their producers and suppliers having adequate time and resources to prepare for implementation of new rates. While the Postal Service provided rates to the Commission on April 6, many of the publications and documentation that service providers depend on to implement rates were not available at the time of the Postal Service's notice. In fact, red-line versions of new postage statements, which software companies need for development and testing, were still not available one month after the Postal Service provided notice of its new rates.

This delay in making necessary documentation available increases costs and risks for postal customers and their suppliers. As the Postal Service appears intent on changing prices with greater frequency, this truncation of effective notice will become increasingly problematic PostCom recommends that the Commission consider either increasing the required notice period or requiring that the 90-day notice period commence, not with the Postal Service's notice, but instead with confirmation that the Postal Service has prepared all necessary technical documentation.

Respectfully submitted,

/s/ Matthew D. Field

Matthew D. Field
Ian D. Volner
Venable LLP
600 Massachusetts Ave., NW
Washington, DC 20001
(202) 344-8281
mfield@venable.com
idvolner@venable.com
Counsel for Association for Postal Commerce